

## Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-06 AID-05 EB-07

NSC-05 CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01

CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03

LAB-04 SIL-01 L-03 H-02 DODE-00 PA-01 PRS-01 PM-04

AGR-05 /105 W

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R 260614Z APR 76

FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 0066

INFO USLO PEKING

AMEMBASSY TOKYO

AMEMBASSY TAIPEI

AMEMBASSY SINGAPORE

AMEMBASSY LONDON

AMEMBASSY JAKARTA

C O N F I D E N T I A L SECTION 1 OF 2 HONG KONG 4654

JOINT STATE/TREASURY MESSAGE

E.O. 11652: GDS

TAGS: ETRD, EFIN, CH, XX

SUBJECT: PRC TRADE AND PAYMENTS BALANCES IN 1975--INITIAL ASSESSMENT

SUMMARY: ALARMED BY THE WAY THAT ITS INTERNATIONAL TRADE  
AND PAYMENTS BALANCE WAS THROWN INTO DEFICIT IN 1974,  
PEKING SOUGHT SUCCESSFULLY IN 1975 TO TURN THE TREND  
AROUND. IN TRADE, SHARPLY DECREASED AGRICULTURE IMPORTS,  
PLUS LOWER COMMODITY PRICES MORE THAN OFFSET RISING  
CAPITAL EQUIPMENT IMPORTS TO CONTRIBUTE TO A ONE PERCENT  
DROP IN IMPORTS FROM NON-COMMUNIST COUNTRIES. EXPORTS  
TO THESE COUNTRIES ROSE EIGHT PERCENT AS RISING  
PETROLEUM SHIPMENTS MORE THAN COMPENSATED FOR FALLING  
SALES OF TRADITIONAL EXPORTS, MUCH OF WHICH ARE CONSUMER  
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GOODS. THE RESULT WAS AN OVERALL REDUCTION IN THE

IMPORTANT HARD CURRENCY TRADE DEFICIT TO AN ESTIMATED \$845 MILLION, DOWN FROM \$1,365 MILLION IN 1974. IN THE BALANCE OF PAYMENTS ACCOUNTS, CHANGES IN INVISIBLES AND CAPITAL ACCOUNTS ALLOWED THE PRC TO FINANCE EASILY THE TRADE DEFICIT. KEY FACTORS WERE INCREASED SERVICES AND TRANSFERS, SUPPLIER CREDITS, AND BANK TRANSFERS. THESE FACTORS COMBINED TO TURN THE PRC BALANCE OF PAYMENTS AROUND FROM 1974'S ESTIMATED DEFICIT OF \$370 MILLION TO ESTIMATED SURPLUS OF \$415 MILLION IN 1975.

THE INITIAL ASSESSMENT WHICH FOLLOWS WILL BE SUPPLEMENTED SHORTLY BY A MORE DETAILED AIRGRAM. END SUMMARY.  
I. BALANCE OF TRADE

1. ALARMED BY THE SOARIING TRADE DEFICIT IN 1974, PEKING PUT CHINA'S FOREIGN TRADE INTO A HOLDING PATTERN IN 1975, KEEPING IMPORTS LEVEL WHILE EXPORTS ROSE SLOWLY. IMPORTS FROM HARD CURRENCY COUNTRIES DECLINED BY ONE PERCENT TO REACH AN ESTIMATED \$6.455 BILLION, BASED ON TRADE DATA FROM 29 NON-COMMUNIST COUNTRIES (ADJUSTED SO THAT PRC IMPORTS ARE CIF, AND EXPORTS FOB). FIGHTING THE WORLDWIDE RECESSION, EXPORTS TO THESE COUNTRIES INCREASED BY ONLY EIGHT PERCENT TO REACH \$5.61 BILLION. ASSUMING MODEST GROWTH IN COMMUNIST COUNTRY TRADE, PRC OVERALL EXPORTS ARE ESTIMATED TO HAVE REACHED \$7.1 BILLION, AND IMPORTS \$7.6 BILLION, FOR GLOBAL TWO-WAY TRADE OF \$14.7 BILLION.

2. BY REGION, PRC IMPORTS FROM EEC COUNTRIES--PRINCIPALLY MACHINERY--ROSE BY 35 PERCENT TO REACH \$1.5 BILLION. PRC EXPORTS--MOSTLY CONSUMER GOODS--WERE HARD HIT BY THE RECESSION AND DECLINED SIX PERCENT TO \$700 MILLION. WITH JAPAN, PEKING MANAGED TO INCREASE EXPORTS BY 17 PERCENT TO \$1.45 BILLION, MAINLY THROUGH PETROLEUM SHIPMENTS, WHICH ACCOUNTED FOR NEARLY ONE-HALF OF ITS EXPORTS. IMPORTS, WHICH GREW BY 13 PERCENT TO \$2.4 BILLION, CONSISTED MAINLY OF STEEL, FERTILIZER AND GENERAL TRANSPORTATION EQUIPMENT. IMPORTS FROM NORTH AMERICA--MAINLY AGRICULTURAL GOODS--DROPPED BY OVER 50 PERCENT, WHILE EXPORTS ROSE  
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SLIGHTLY. IMPORTS FROM SOUTHEAST ASIA--PRIINCIPALLY RUBBER AND OTHER AGRICULTURAL GOODS--DROPPED EVEN MORE IN ABSOLUTE TERMS THAN DID PRC EXPORTS TO THOSE DEPRESSED ECONOMIES. RELATIVELY LITTLE DATA IS AVAILABLE FROM LATIN AMERICA, BUT EVIDENCE SUGGESTS THAT THE VALUE OF PRC IMPORTS DECLINED DUE TO LOWER COMMODITY PRICES AND REDUCED VOLUME.

3. COMMODITY COMPOSITION SHIFTED REMARKABLY IN 1975. OVERALL, RISING MACHINERY AND EQUIPMENT IMPORTS, WHICH AMOUNTED TO AN ESTIMATED \$1.7 BILLION, WERE OFFSET BY DECREASED AGRICULTURAL IMPORTS. FOR EXAMPLE, GRAIN IMPORTS FELL TO 3.3 MILLION MT, WORTH ABOUT \$625 MILLION, COMPARED WITH 1974 LEVELS OF 7.0 MILLION MT WORTH \$1.2 BILLION. SUGAR IMPORTS ALSO DECLINED CONSIDERABLY, AS DID RUBBER. PEKING NOT ONLY REDUCED COTTON IMPORTS DRAMATICALLY, BUT, AS DEVELOPED COUNTRY TEXTILE MARKET DEMAND SAGGED, EXPORTED RAW COTTON TO HONG KONG AND JAPAN. ALSO ON THE EXPORT SIDE, PRC PETROLEUM EXPORTS OF ABOUT 12 MILLION MT WORTH AROUND \$1 BILLION COMPENSATED FOR REDUCED TEXTILE FABRIC, CLOTHES AND OTHER CONSUMER GOODS EXPORTS. THE RISE IN PRC EXPORTS OVERALL WAS FACILITATED BY AN EXPORT PROMOTION EFFORT INCLUDING MORE TRADE MISSIONS ABROAD, MORE MINI-FAIRS, AND MORE ATTENTION TO FOREIGN IMPORTERS' SUGGESTIONS FOR MODIFICATIONS.

4. EAST EUROPEAN COUNTRY TRADE INCREASED GENERALLY BY 10-15 PERCENT, EXCEPT IN THE UNUSUAL CASE OF ROMANIA. AN OIL-FERTILIZER BARTER DEAL WITH THAT COUNTRY ALMOST DOUBLED THE TRADE FIGURES COMPARED WITH LAST YEAR. OVERALL, TRADE WITH OTHER COMMUNIST COUNTRIES GREW BY 15 PERCENT, ASSUMING THAT INCREASE IN COMMODITY EXPORTS TO INDOCHINA WAS OFFSET BY DECREASED MILITARY SHIPMENTS THERE.

5. AS A RESULT OF THE MEASURES DESCRIBED ABOVE, PEKING REDUCED ITS HARD CURRENCY TRADE DEFICIT BY OVER 35 PERCENT TO JUST UNDER \$1 BILLION. A MAJOR CONTRIBUTION TO THIS WAS THE DRAMATIC FALL IN THE NORTH AMERICAN DEFICIT FROM \$1.2 BILLION IN 1974 TO

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ONLY \$560 MILLION IN 1975. THIS DECLINE MORE THAN COMPENSATED FOR THE 115 PERCENT INCREASE IN THE DEFICIT WITH THE EEC COUNTRIES WHICH REACHED \$850 MILLION. THE DEFICIT WITH JAPAN ROSE ONLY NINE PERCENT TO \$920 MILLION. INCREASED EARNING FROM HONG KONG AND SOUTHEAST ASIA ALSO PLAYED A ROLE.

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## II. BALANCE OF PAYMENTS.

### 5. IN THE BALANCE OF PAYMENTS ESTIMATES BELOW TRADE

BALANCE LINE, I.E., INVISIBLES AND CAPITAL, SOME  
SUBSTANTIAL CHANGES AND REFINEMENTS HAVE BEEN MADE FROM PREVIOUS  
REPORTS. WE BELIEVE THAT THE RESTRUCTURING IS USEFUL  
AND THE GENERAL MAGNITUDE OF ESTIMATES VALID, BUT WE  
ARE STILL REFINING A NUMBER OF THE FIURES. FOLLOWING  
PARAS POINT OUT MAJOR CHANGES IN OVERALL BOP TALBE SET  
OUR BELOW:

### PRC BALANCE OF PAYMENTS - US MILLION DOLLARS

I. CURRENT ACCOUNT	1974	1975
EXPORTS, F.O.B. - TOTAL	6,515	7,135
NON-COMMUNIST	5,170	5,610
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COMMUNIST	1,345	1,525
IMPORTS, C.I.F. -TOTAL	-7,490	-7,565
NON-COMMUNIST	-6,535	-6,455

COMMUNIST	-955	-1,110		
TRADE BALANCE	-975	-435		
NON-COMMUNIST	-1,365	-850		
COMMUNIST	390	415		
SERVICES & TRANSFERS		465	580	
TOURISM	40	50		
SHIPPING	200	300		
EARNINGS ON HK INVESTMENTS			25	30
REMITTANCES	20	250		
INTEREST	-50	-50		
OTHER	--	--		
BALANCE ON CURRENT ACCOUNT			-510	145

## II. CAPITAL ACCOUNT

LOANS AND GRANTS BY PRC - TOTAL		-560	-555
NON-COMMUNIST	-170	-150	
COMMUNIST	-390	-415	
COMPLETE PLANT PROGRAM		-50	375
DOWNPAYMENTS	-150	-25	
DEFERRED PAYMENTS	100	400	
TRADE CREDITS - TOTAL	650	200	
AGRICULTURAL	200	-50	
JAPANESE TRADE CREDIT		200	300
OTHER	250	-50	
PRC BANKS	100	200	
OVERALL BALANCE	-370	415	

6. INVISIBLES. PREVIOUS ESTIMATES HAVE GIVEN A ZERO BALANCE FOR INVISIBLES, WITH REMITTANCE RECEIPTS OFFSETTING AN OTHERWISE NEGATIVE BALANCE. CURRENT THINKING IS THAT INVISIBLES BALANCE IN RECENT YEARS IS ALMOST CERTAINLY POSITIVE, WITH RECEIPTS FROM SHIPPING, REMITTANCES, TOURISM, AND INVESTMENTS IN HONG KONG CONSIDERABLY EXCEEDING KNOWN EXPENDITURES, EVEN INCLUDING AN ALLOWNANCE FOR INTEREST ON CREDITS ACCUMULATED IN 1973-74. MOST IMPORTANT CHANGE IS SUBSTANTIAL ALLOWANCE FOR EARNINGS AND SAVINGS ATTRIBUTABLE TO MUCH EXPANDED CHINESE MERCHANT FLEET. IN CONTRAST TO

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USUAL PRACTICE, THE PRC OFTEN SELLS ITS EXPORTS C.I.F. AND BUYS IMPORTS F.O.B. TO CAPTURE SHIPPING AND INSURANCE FEES.

7. CAPITAL ITEMS. MOST IMPORTANT CHANGE IS ADDITION OF A LINE FOR LOANS AND GRANTS TO COMMUNIST COUNTRIES, PROVISIONALLY SET EQUAL, IN 1974 AND 1975, TO THE TRADE SURPLUSES OF PRC WITH COMMUNIST PARTNERS.

THIS ASSUMES IN EFFECT THAT PRC'S COMMUNIST

TRADE BALANCES ARE SETTLED WHOLLY AS AID, ESPECIALLY  
TURE WITH REFERENCE TO EXPORTS TO INDOCHINA, OR  
CREDITS OF ONE KIND OR ANOTHER, NEVER AS HARD  
CURRENCIES.

ANOTHER CHANGE IS IN TREATMENT OF COMPLETE  
PLANT PROGRAM FINANCING. AFTER EXAMINING KNOWN DETAILS  
OF CONTRACTS, APPEARS TO US THAT DOWNPAYMENTS (I.E.  
PREPAYMENTS) MUST HAVE EXCEEDED DRAWDOWN OF THE DEFERRED  
PORTIONS IN 1974 AS WELL AS IN 1973. DOWNPAYMENTS  
GENERALLY HAVE BEEN REQUIRED BOTH ON THE PROGRESS  
PAYMENTS CONTRACTS AND OF THOSE WITH MORE EXTENDED  
TERMS. IN 1975, A YEAR OF RELATIVELY FEW NEW CONTRACTS,  
WITH SHIPMENTS ON 1973 AND 1974 PROGRAMS EXPANDING, THE  
SITUATION WAS REVERSED.

WE HAVE ENTERED A NEGATIVE FIGURE FOR AGRICULTURAL  
TRADE CREDIT IN 1975 ON ESTIMATE THAT REPAYMENTS  
(CHIEFLY ON AUSTRALIAN CONTRACTS) EXCEED NEW CREDIT.  
NET TRADE CREDITS FROM COUNTRIES EXCEPT JAPAN WAS  
ALSO A NEGATIVE ITEM IN 1975 BECAUSE PRC IMPRTS  
FROM THESE COUNTRIES DECLINED.

THE LINE LABELED PRC BANKS REPRESENTS AN ESTIMATE  
OF FUNDS FLOWING TO THE PRC FROM BANK OF CHINA AND  
OTHER PRC BANKS IN HONG KONG AND ELSEWHERE. BELIEVE  
THESE ARE INCREASING WITH AGGRESSIVE DEPOSIT-SEEKING  
POLICIES CHIEFLY RESPONSIBLE.

8. OVERALL BALANCE. OUR ESTIMATES SUGGEST THAT  
DRAWDOWN OF PRC RESERVES IN 1974 WAS MORE THAN MADE  
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UP IN 1975.

PRC TRADE AND FINANCAIAL POLICIES IN 1975 CONTINUED  
TO GIVE EVIDENCE OF CONCERN OVER FOREIGN EXCHANGE.

WE INTERPRET THIS AS A DESIRE TO REBUILD RESERVES  
AFTER DEPLETION WHICH TOOK PLACE IN 1974. THE 1974  
REDUCTION IN RESERVES WAS NO DOUBT INADVERTENT, PRC  
PLANNERS NOT HAVING FORECAST THE WESTERN RECESSION  
ANY BETTER THAN DID WESTERNERS. GIVEN THE WELL-KNOWN  
CONSERVATIVE ATTITUDES OF PRC FINANCIAL OFFICIALS,  
AN EFFORT TO RECOUP THIS REDUCTION WOULD SEEM NATURAL.  
THERE ARE, HOWEVER, SOME SIGNS THAT IN 1975, PRC  
PLANNERS DID NOT FEEL SO CONSTRAINED BY FOREIGN EXCHANGE  
CONSIDERATIONS THAT THEY COULD NOT TAKE ADVANTAGE OF  
BARGAIN PRICES AS IN THE CASE OF MERCHANT SHIPS AND  
ALUMINUM.

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## Message Attributes

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